VZCZCXYZ0000
RR RUEHWEB

DE RUEHEG #0121/01 0241343
ZNR UUUUU ZZH
R 241343Z JAN 10
FM AMEMBASSY CAIRO
TO RUEHC/SECSTATE WASHDC 0031
INFO RUEATRS/DEPT OF TREASURY WASHINGTON DC
RUEHEG/AMEMBASSY CAIRO

UNCLAS CAIRO 000121

SENSITIVE
SIPDIS

E.O. 12958: N/A
TAGS: ECON EFIN PGOV EG
SUBJECT: UNPROFITABLE STATE-OWNED ENTERPRISES SWAP LAND FOR DEBTS

REF: 07 CAIRO 829

¶1. (SBU) Key Points:

-- State-owned Enterprises (SOEs) are handing over real estate to settle a significant amount of their outstanding loans to public sector banks.

-- The land for debt swaps will settle about 80% of the SOEs outstanding loans with the public banks.

-- This process will allow the GOE to continue its bank reforms without spending more money.

Land for Debt Swap

¶2. (SBU) The Ministry of Investment, which oversees most State-owned Enterprises (SOEs), is having 152 SOEs hand over some of their real-estate to National Bank of Egypt (NBE) and Banque Misr to settle a significant amount of their outstanding debts. NBE and Banque Misr publicly announced on 4 January that they were accepting the land in exchange for debt. NBE and Banque Misr are public sector commercial banks and are Egypt's two largest banks. Mohamed Saleh, head of the Capital Markets Unit at the Ministry of Investment, told us on 13 January that the NBE and Banque Misr will be able to sell the land easily because they have experience selling land that was given to them during previous GOE reforms of SOEs and the banking sector.

¶3. (SBU) Saleh told us on 13 January that this land for debt swap will settle about 80% of the SOE's remaining LE 8.1 billion ($1.5 billion) debts to public commercial banks. It is not clear if the land is worth $1.2 billion or if the NBE and Bank Misr are writing down some of the SOE debt as part of the deal.

--- --

Reducing SOE Debt Part of Banking Sector Reform

--- --

¶4. (SBU) The land for debt swaps follows two rounds of the GOE paying off outstanding SOE loans to banks in 2006 and 2007 as part of the GOE's ongoing banking reforms (reftel). The GOE reduced outstanding SOE debt to public and private banks from LE 31.5 billion ($5.4 billion) in June 2004 to LE 8 billion ($1.5 billion) now.

¶5. (SBU) These non-performing loans (NPLs) are decades old, according to Hisham Okasha, the Deputy Chairman of the National Bank of Egypt (NBE). He told us on 18 January that the SOEs involved in the swap were unprofitable when they were created under President Nasser in the 1950s and 1960s and even though they are more efficient now, they will never be profitable enough to pay back their outstanding loans.

Comment

¶6. (SBU) Settling a significant portion of SOE outstanding debt to public banks will improve public commercial banks' balance sheets, a goal of the GOE's ongoing financial sector reform program. By having the SOEs exchange land for their debts, the GOE is continuing this line of reforms without having to increase government spending and further drive up its budget deficit. The budget deficit is already expected to rise to from 6.9% of GDP in FY2009 and FY2008 to 8.5% of GDP in FY2010.
SCOBEY